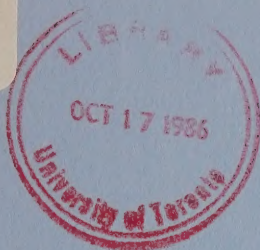


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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of an Application under
Part IV of the National Energy Board Act

of

Trans Mountain Pipe Line Company Ltd.

September 1986

Hearing Order: RH-1-86, as amended

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Reasons for Decision

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Recital and Submitters

IN THE MATTER OF the National Energy Board Act (the Act) and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. made under Part IV of the Act for certain orders respecting tolls and tariffs, filed with the Board under File Nos. 1762-T4-10 and 1762-T4-11.

BEFORE:

A.D. Hunt	Presiding Member
J. Farmer	Member
W.G. Stewart	Member

SUBMITTORS:

Trans Mountain Pipe Line Company Ltd.	G.A. Irving
Air Canada, Canadian Pacific Air Lines, Limited and Pacific Western Airlines Ltd.	R.S. O'Brien, Q.C.
Alberta Petroleum Marketing Commission	W.M. Smith
Canadian Petroleum Association	D.B. Macnamara
Chevron Canada Limited	W.A. Haslam
Dome Petroleum Limited	A.R. Fraser
Imperial Oil Limited	A.R. Napper H.P. Newton J.P. Thomson
Independent Petroleum Association of Canada	R.R. Andrews
Petro-Canada Inc.	E.S. Decter
Shell Canada Limited	B.W. Mitchell R.W. Riegert A.P.G. Walker
TransCanada PipeLines Limited	C.C. Black
Trans-Northern Pipelines Inc.	W.J. Greer
Westcoast Transmission Company Limited	R.B. Maas

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Abbreviations and Definitions

the Act	National Energy Board Act
Airlines	Air Canada, Canadian Pacific Air Lines, Limited and Pacific Western Airlines Ltd.
Board/NEB	National Energy Board
Chevron	Chevron Canada Limited
Company/ Trans Mountain	Trans Mountain Pipe Line Company Ltd.
DBRS	Dominion Bond Rating Service
DCF	Discounted Cash Flow
Gulf	Gulf Canada Limited
Imperial	Imperial Oil Limited
IRR	Investors' Required Return
m³/d	cubic metre per day
m³ km	cubic metre-kilometre
Petro-Canada	Petro-Canada Inc.
Shell	Shell Canada Limited
Trans- Northern	Trans-Northern Pipelines Inc.
1985 Reasons for Decision	"National Energy Board Reasons for Decision in the matter of Applications under Section 17 and Parts III and IV of the National Energy Board Act March 1985"

Summary

NOTE: This summary is provided solely for the convenience of the reader and does not constitute part of this Decision or the Reasons.

Introduction

Trans Mountain filed an application dated 31 October 1985 for an order to adjust its tolls. The Board implemented interim tolls effective 1 January 1986 and addressed the Company's application by written submission. The major decisions of the Board with respect to the Trans Mountain toll application are summarized below.

Rate Base

The Board has reduced the applied-for rate base to reflect disallowance of 40 percent of Trans Mountain's proposed regular 1986 plant additions due to unanticipated construction delays and the denial of the Company's request to include certain deferred items in rate base.

Rate of Return

The Board has approved a rate of return on rate base of 12.82 percent based on a deemed capital structure composed of 50 percent debt and 50 percent equity. The Board decided that rates of 14.51 percent on funded debt, 10.50 percent on unfunded debt and 14.25 percent on common equity were appropriate for the 1986 test year. The 14.25 percent rate of return on common equity for the whole of the 1986 test year is the average of 14.50 percent for the first six months and 14 percent for the final six months. Unless modified in response to an application, tolls commencing 1 January 1987 are to reflect the 14 percent rate of return on common equity.

Cost of Service

Operating expenses were reduced to reflect the Company's estimates made after its application was

filed. The provision for oil gains was increased to reflect the average gains realized over the previous five-year period.

The Board allowed part of Trans Mountain's request regarding certain deferred items. All of the uninsured loss arising from a washout caused by flooding of the Coquihalla River was allowed, but 75 percent of the development costs associated with the proposed Kamloops distribution terminal were disallowed.

As a result of its decisions with respect to rate base, rate of return and cost of service, the Board has allowed a total cost of service of \$40,076,000 compared to the \$41,765,000 requested by Trans Mountain.

Throughput

The Board has increased the Company's throughput forecast to 26 960 m³/d primarily to reflect higher anticipated exports to Washington State via Sumas.

Toll Design

During this proceeding, the Board reviewed the Company's toll adjustment methodology and decided to continue the current method on a trial basis. Trans Mountain is required to submit an evaluation of this methodology by 30 September 1987. In the meantime, Trans Mountain will be required to file an application to adjust tolls whenever its revised throughput forecast for the calendar year differs by more than 4 percent, on a cubic metre-kilometre basis, from the approved forecast. Previously, an application was required if the throughput forecast varied by more than 5 percent.

Trans Mountain had applied for surcharges of 5 percent and 15 percent for the transportation of medium and heavy crudes, respectively. The Board has approved only the 15 percent surcharge for heavy crudes pending a full review of such surcharges at a future public hearing.



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Chapter 1

The Application

1.1 The Company

Trans Mountain Pipe Line Company Ltd. (Trans Mountain, the Company) was incorporated in 1951 by a Special Act of Parliament and continued in 1979 under the Canada Business Corporations Act. The Company owns and operates, as a common carrier, an oil pipeline system consisting of 1 156 kilometres of 610 millimetre pipeline extending from Edmonton, Alberta to Burnaby, British Columbia. The system includes a condensate gathering facility at Edson, Alberta and connects near Sumas, British Columbia to a pipeline owned by a wholly-owned American subsidiary, Trans Mountain Oil Pipe Line Corporation.

1.2 Application

Trans Mountain filed an application dated 31 October 1985 for an order adjusting the tolls set out in Tariff No. 29. This application was prepared as a Class 2 application in accordance with the toll application procedures established by Order No. TO-5-85, as amended. By letter dated 20 December 1985, the Board issued Order No. TOI-4-85 to implement interim tolls effective 1 January 1986 and directed Trans Mountain to file a Class 3 application.

The Company filed an amended application dated 28 February 1986 with further amendments dated 25 April 1986 and 4 July 1986. The Board addressed this application including argument and rebuttal by written submission.

Chapter 2

Rate Base

The rate base proposed by Trans Mountain was calculated on the basis of a thirteen-month average of projected utility investment for the period 1 January 1986 to 31 December 1986. Trans Mountain's proposed rate base components and the Board's adjustments are summarized in Table 2-1. The Board's decisions regarding rate base are explained in this chapter.

Table 2-1
Summary of Rate Base
(\$000)

	Application as Amended	NEB Adjustments	NEB Allowed
Average Original Cost of Plant in Service	158,159	(826)	157,333
Average Accumulated Depreciation and Amortization on Plant in Service	(112,460)	13	(112,447)
Average Net Book Value of Plant in Service	45,699	(813)	44,886
Average Accumulated Deferred Income Taxes	(1,631)	24	(1,607)
Average Miscellaneous Deferred Items	442	(442)	—
Average Working Capital Requirement	3,562	(55)	3,507
Total	48,072	(1,286)	46,786

2.1 Plant Additions

Trans Mountain forecasted plant additions of \$15,964,600 in 1986, with a concomitant average effect on rate base of \$5,654,131. The breakdown of these amounts is as follows:

	Total Additions	13-month Averages
1986 Regular Additions	\$ 7,358,300	\$2,063,846
1985 Carryovers	3,539,500	1,995,869
Upgrading Program - Phase II	593,800	436,262
Refined Petroleum Facilities	4,473,000	1,158,154
	\$15,964,600	\$5,654,131

The Company stated in its application that it had taken various steps to enhance the accuracy of the forecast 1986 rate base capital additions, subsequently stating that, for several reasons, it believed that 100 percent of its proposed 1986 plant additions should be included in rate base.

In information requests directed to Trans Mountain, the Board asked for updated information on plant additions to reflect the current status and projections. Trans Mountain replied that it had experienced delays in acquiring critical materials and/or construction permits for some projects and that this would lead to some projects being completed later than had been originally expected. The Company's amended application showed delays from the original application, and that Trans Mountain would have to step up its 1986 plant addition activity by a substantial amount, especially in the last three or four months of the year, in order to meet the stated goal of plant additions in 1986.

Air Canada, Canadian Pacific Air Lines, Limited and Pacific Western Airlines Ltd. (the Airlines) noted that, despite assurances by Trans Mountain, the Company's 1985 construction expenditures once again fell substantially short of the estimates. The Airlines submitted that a maximum of 80 percent of approved 1986 additions and 1985 holdovers should be allowed for rate base purposes.

In 1985, Trans Mountain's reassuring statements that all proposed additions would be completed led the Board to approve for inclusion in rate base all of the Company's proposed plant additions except for some reductions concerning individual projects. The 1985 completion rate, however, was only about 60 percent of approved projects. In light of the 1985 experience and the problems Trans Mountain has experienced with its 1986 plant additions, as reflected in its amended application, the Board has reduced the estimated average regular 1986 plant additions by \$826,000 and related accumulated depreciation by \$9,000 to reflect an expected 60 percent completion rate.

With respect to the 1985 carryovers (plant additions planned but not completed in 1985), it appears that some delays have occurred. However, the Company has indicated that it is solving this problem, and a high probability exists that these 1985 carryovers will be either fully completed, or close to 100 percent completed, in 1986.

Phase II of the upgrading program was delayed because of problems encountered by the pump manufacturer during the initial attempt to modify the eight pumps subject to upgrading. These problems, however, have been overcome and Trans Mountain is confident that the upgrading program will be completed in 1986.

For the refined petroleum facilities, leave-to-open was granted by the Board on 25 June 1986. All indications are that this project will be completed in 1986.

With respect to the 1985 carryovers, Phase II of the upgrading program, and refined petroleum facilities, the Board believes that completion of these projects in 1986 is quite feasible. Therefore, the Board allows these plant additions to rate base according to Trans Mountain's application.

Furthermore, as stated in Section 4.2, excess depreciation amounting to \$3,627 was included by Trans Mountain in its calculation of depreciation for a number of plant additions. Since this has been disallowed by the Board, accumulated depreciation, as well as depreciation expense, has been reduced by \$4,000.

2.2 Deferred Costs

Trans Mountain requested that certain miscellaneous deferred items, on which the Company had earned no return, be included in rate base. The average balances of these items for the 1986 test year, reflecting two-year amortization periods, and as included by Trans Mountain in its proposed rate base were as follows:

— 1985 Toll Hearing Costs	\$ 99,500
— Kamloops Terminal Development Costs	202,500
— Coquihalla Washout - Uninsured Losses	140,000

Further information on the latter two items can be found in Sections 4.3.1 and 4.3.2.

The Company felt justified in including the average unamortized balances of the three above-mentioned items in rate base because these unamortized balances were substantial, they were directly related to its regulated pipeline activity, and the Board had already allowed a similar treatment to Trans-Northern Pipelines Inc. (Trans-Northern). Given the Board's decision in the Trans-Northern case, and the Company's identical requirements for amortizing its toll hearing costs, Trans Mountain believed that these costs should be included in the test-year rate base stating that these costs were no different from other prepaid expenses.

The Board did not allow the unamortized toll hearing costs in rate base in Trans Mountain's last toll case.

Shell Canada Limited (Shell) stated in its written evidence that it agreed with the concept of allowing a return on the average unamortized balance of deferred costs for the 1985 toll hearing, uninsured losses and project development costs, and noted the treatment of such costs afforded to Trans-Northern in the Board's May 1985 Reasons for Decision. However, Shell believed that such costs could be reasonably recovered in the 1986 cost of service without undue impact on the cost of service. Therefore, Shell did not foresee a need to consider deferral of any of the costs.

The Airlines stated that the above items should not be included in rate base.

The Board has decided that all of these deferred items, to the extent allowed, are to be fully amortized in the 1986 test year and that the unamortized balances as of 1 January 1986 are not to be included in rate base. The unamortized balance of 1985 toll hearing costs as at 1 January 1986 of \$199,000 will be amortized in the 1986 test year. Table 4-2 in Section 4.3 summarizes the Board's adjustments relating to the amortization of the Kamloops terminal development costs and Coquihalla washout uninsured losses proposed by Trans Mountain.

2.3 Working Capital

Trans Mountain's forecast working capital provision has been revised to reflect adjustments by the Board to some of the working capital components. Table 2-2 summarizes the requested and allowed provisions.

Table 2-2

**Summary of Working Capital Allowance
(\$000)**

	Application as Amended	NEB Adjustments	NEB Allowed
Operating Expenses	28,210	(667)	27,543
Less:			
- Employee Benefits (unfunded liability re annuity plan)	(360)	—	(360)
- Insurance	(755)	—	(755)
- Taxes Other Than Income Taxes	(95)	—	(95)
- Account 412-2 Expenses (insurance only)	(16)	—	(16)
- Rents	(455)	—	(455)
Rents Paid on a Monthly Basis	410	—	410
Cash Operating Expenses	26,939	(667)	26,272
Revenue Other Than Carrier Revenues	(230)	—	(230)
Petroleum Loading Revenues	(108)	(19)	(127)
	26,601	(686)	25,915
Income Taxes Payable	2,414	(380)	2,034
Cash Cost of Service	29,015	(1,066)	27,949
Provision for Cash Requirements ¹	1,510	(55)	1,455
Inventories	1,417	—	1,417
Prepaid Expenses	635	—	635
Allowance for Working Capital	3,562	(55)	3,507

1 19/365 x Cash Cost of Service

Chapter 3

Return

Trans Mountain applied for a rate of return on rate base of 13.69 percent based on the capital structure and cost rates shown in Table 3-1. This compared to the previously approved rate of 14.66 percent.

Table 3-1
Requested Rate of Return on Rate Base

	Capitalization (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	7,380	15.3	14.51	2.22
- Unfunded	16,656	34.7	10.75	3.72
Common Equity	24,036	50.0	15.50	7.75
Total	48,072	100.0		13.69

The Company's expert witness recommended a rate of return on rate base of 14.26 percent. Trans Mountain stated that if a public hearing were to be held, it would amend its application to conform to the recommendation of its expert witness.

3.1 Capital Structure

Trans Mountain did not apply to vary its deemed capital structure on the understanding that it was not the Board's practice to do so without a public hearing. The Company's expert witness recommended that the approved capital structure composed of 50 percent debt and 50 percent common equity be revised to 45 percent debt and 55 percent common equity. This recommendation was based primarily upon his perception of increased business risks facing the Company since the time of the 1985 Reasons for Decision.

The Airlines expressed the view that, for Trans Mountain, deregulation of the oil industry had reduced risks of all types and improved long-term prospects. Since these factors represented changes since the 1985 Reasons for Decision, this intervenor suggested that they be reflected in the allowed return on equity. The Airlines argued that there was no need for a change in the Company's capital structure.

Shell was of the view that the currently approved capital structure should be maintained, whether or not a

public hearing was held on the subject of Trans Mountain's tolls.

In Order No. RH-1-86, the Board indicated that the determination of an appropriate capital structure would be included in its examination of Trans Mountain's application. During its review, the Board observed that the Dominion Bond Rating Service (DBRS) had recently raised its rating of the senior debt of the Company from "BBB(low)" to "BBB(high)". In the Board's view this does not support the perception of the Company's expert witness that business risks have recently increased for Trans Mountain.

Upon review the Board is satisfied that a deemed capital structure composed of 50 percent debt and 50 percent common equity continues to be an appropriate basis for determining the allowed rate of return on rate base.

3.2 Allocation of Funded Debt

In July 1984, the Company arranged \$20 million in fixed-rate, fixed-term loans at an average cost rate of 14.51 percent. In its 1985 Reasons for Decision, the Board, having decided to consider these funds as having been raised for general corporate purposes, allocated this debt between regulated and non-regulated activities on the basis of a formula¹. This resulted in an allocation of \$5.118 million of the \$20 million to the utility operations of the Company.

In its application, Trans Mountain used 1986 values in the NEB formula in order to make an updated allocation of this debt. Using this procedure the utility portion of the \$20 million of debt increased to \$7.38 million. This approach was supported by the Company's expert witness. He contended that on the basis of the

$$1 \text{ Utility Portion of Funded Debt} = \$20 \text{ million} \times \frac{\text{Deemed Regulated Debt}}{\text{Consolidated Deemed Debt}}$$

Deemed Regulated Debt was 45 percent of the Company's rate base as at 30 June 1984 (\$17,143,200). Consolidated Deemed Debt was the sum of the deemed regulated debt and the consolidated long-term debt as at 30 June 1984 (\$66,998,200).

amount of capital additions since the last decision, it was not unreasonable to assume that an additional \$2 million of funded debt was used for utility purposes to finance those additions.

Trans Mountain stated that \$12 million of the \$20 million had been applied against additions to rate base as at 1 January 1986 and that a further \$8 million would be applied during 1986. In these circumstances the Company found its approach reasonable and logical.

Two intervenors, Shell and Imperial Oil Limited (Imperial), objected to Trans Mountain's reallocation of its funded debt. They considered the Company's approach inconsistent with the 1985 Reasons for Decision. Imperial stated that the Board had made a permanent allocation of \$5.118 million of the \$20 million debt to regulated activities while Shell stated that Trans Mountain had improperly adjusted the NEB formula.

In its 1985 Reasons for Decision, the Board found there was conflicting evidence regarding the Company's original anticipated use of the \$20 million. Thus, the Board considered the funds to have been raised for general corporate purposes and allocated it between utility and non-utility requirements as at the approximate time the funds were borrowed. No new evidence has been submitted with regard to the original anticipated use of the \$20 million. Furthermore, the Board notes that Trans Mountain continues to maintain its investment in the shares of Inland Natural Gas Co. Ltd. and has no immediate plans for their disposal. Accordingly, the Board is not persuaded that a revision of the funded debt allocation is warranted. Therefore, \$5.118 million is included in the deemed capital structure as funded debt at a cost rate of 14.51 percent.

3.3 Cost of Unfunded Debt

Trans Mountain applied to have the unfunded portion of its deemed debt costed at a rate of 10.75 percent. This rate represents the sum of the projected yield on long-term Government of Canada bonds and a premium for "BBB"-rated utility debt. The Company's expert witness on rate of return estimated the yield on long-term Government of Canada bonds between 9 and 10 percent and cited a traditional spread between yields on Government of Canada bonds and "BBB"-rated utility debt in the range of 100 to 150 basis points. Trans Mountain used the midpoint of both of these ranges to arrive at its applied-for cost of unfunded debt.

In argument, Shell and Imperial supported the Company's rate of 10.75 percent. The Airlines, however,

argued that the current and prospective level of interest rates and spreads indicated that this cost rate was substantially overstated.

The Board accepts 9.50 percent as a reasonable projection for the yield on long-term Government of Canada bonds but notes that there was some disagreement concerning a spread of 125 basis points for the Company's utility debt. The Board notes that the DBRS recently increased its rating for the Company's senior debt. Also, the Company's expert witness indicated that the experienced interest rate differential so far in 1986 had been in the order of 90 basis points. In view of these circumstances, the Board considers that a spread of 100 basis points is reasonable at this time. Therefore, the Board approves a cost rate of 10.50 percent for the unfunded debt component of the deemed capital structure.

3.4 Rate of Return on Common Equity

Trans Mountain applied to have its approved rate of return on common equity of 15.75 percent reduced to 15.50 percent. In support of its application, the Company provided the direct testimony of an expert witness who recommended a cost rate of 15.75 percent. The Company explained that it was seeking the lower cost rate for equity in order to avoid a costly public hearing. Trans Mountain stated that if a hearing was held it would amend its applied-for rate to conform to the recommendation of its expert witness.

In formulating his recommended cost rate for equity, this witness relied primarily upon his analysis of comparable earnings. The results of his discounted cash flow (DCF) and equity risk premium studies were also submitted as supportive.

His comparable earnings analysis focussed on earned rates of return on equity for selected high-grade and investment-grade companies for various time periods in the years 1978 to 1984. During these time periods the average earnings for the sample companies ranged from 15 to 18.40 percent. He projected a rate of return on equity between 15.25 and 15.75 percent for the test year after adjusting the results of his studies to reflect lower expectations regarding inflation and interest rates. For Trans Mountain he considered the upper limit of this range to be the most appropriate owing to the relative vintage of its equity capital.

Using the DCF approach, the witness estimated an investors' required return (IRR) of 14.25 percent for Trans Mountain. He adjusted this result upward to a range of 15.10 to 15.80 percent in order to provide for a recommended market-to-book ratio between 110 and 120 percent.

In this witness' equity risk premium approach, a risk premium of 4.25 percentage points was added to a projected yield for long-term Government of Canada bonds of 10.25 percent to derive an IRR of 14.50 percent. This result was subsequently adjusted upward to a range of 15.30 to 16.10 percent to provide for his recommended market-to-book ratios.

In updating his original evidence, the expert witness reduced his projections of interest and inflation rates but did not revise his recommended rate of return on equity. Trans Mountain argued that there had not been changes in the outlook for corporate profits which would affect the findings of its expert witness.

Three interested parties commented in general terms on rate of return. The Canadian Petroleum Association accepted the Company's requested rate of return on rate base as a reasonable compromise while both Chevron Canada Limited (Chevron) and the Airlines indicated some measure of disagreement. Chevron considered that the requested rate of return on rate base was too high. The Airlines argued that the approved cost rate for equity should reflect the effect of deregulation on the oil industry which, in their view, had reduced the Company's risks and improved long-term prospects since the 1985 Reasons for Decision.

In the Board's view, the determination of an appropriate rate of return on equity involves the exercise of judgment. Having considered the evidence of this case, and the prevailing economic environment, the Board finds that a rate of 14.50 percent is appropriate for the first half of the test year and a rate of 14 percent is appropriate for the balance of the test year. This finding reflects the declining trend in interest rates since the beginning of 1986. However, rather than setting two sets of tolls for the test year, since the impact on tolls is so small, the Board has decided that, for practical purposes, an average rate of return on deemed common equity of 14.25 percent is appropriate for the entire test year, 1986.

Under the Board's current practice, approved tolls remain in force until a new application is filed and new tolls set by the Board. In this instance, the Board found that a cost of equity of 14 percent was appropriate for the second half of the 1986 test year. Unless modified in response to an application, this rate will continue into 1987. To reflect this situation, Trans Mountain is directed to file new tolls, to be effective 1 January 1987, based on the tolls approved in this Decision and as shown in Schedule "A" of Order No. TO-2-86, adjusted to reflect a 14 percent rate of return on common equity.

The Board recognizes that Trans Mountain's rate base, cost of service and throughputs may change in 1987 and that the Company may, at its discretion, request adjustments in its tolls.

3.5 Return on Rate Base

On the basis of the above decisions with respect to capital structure and the associated cost rates, the Board has derived a rate of return on rate base of 12.82 percent. The derivation of this rate and the allowed return on rate base are shown in Table 3-2.

Table 3-2
Approved Rate of Return and
Return on Rate Base

	Capitalization (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)	Return (\$000)
Debt - Funded	5,118	10.94	14.51	1.59	744
- Unfunded	18,275	39.06	10.50	4.10	1,918
Common Equity	23,393	50.00	14.25	7.13	3,336
Total	46,786	100.00			5,998
Rate of Return on Rate Base				12.82	

Chapter 4

Cost of Service

The Board's decisions regarding the determination of cost of service are provided in this chapter. The resulting adjustments to cost of service are summarized in Tables 4-1 to 4-4.

4.1 Operating Expenses

In its amended toll application, Trans Mountain reflected operating expenses of \$28,210,000. The Board has adjusted these expenses as explained in the following sections. As noted in the relevant sections, a number of the adjustments reflect the updated projections appearing in Trans Mountain's quarterly report of operations for the period ending 30 June 1986. Table 4-1 summarizes operating expenses.

Table 4-1
Operating Expenses
(\$000)

	Application as Amended	NEB Adjustments	NEB Allowed
Salaries and Wages	8,250	(250)	8,000
Materials and Supplies	920	-	920
Outside Services	3,278	-	3,278
Other Expenses	2,645	-	2,645
Fuel and Power	2,617	34	2,651
Oil Gains	(500)	(97)	(597)
Law Expenses	35	—	35
Rents	455	(89)	366
Employee Benefits	2,103	(44)	2,059
Insurance	755	—	755
Taxes Other Than			
Income Taxes	7,882	(221)	7,661
Insurance and Taxes on			
Specially Classified Assets	146	—	146
Less: Allocation of			
Administration Costs to			
- Capital Projects and			
Corporate Development	(193)	—	(193)
- Non-jurisdictional			
Activities	(183)	—	(183)
Total Operating Expenses	28,210	(667)	27,543

4.1.1 Salaries, Wages and Benefits

Test-year Escalation Factors

Trans Mountain requested a 4 percent increase for salaries and wages inclusive of allowances for

economic adjustment, merit, promotion and progression. The Company explained that this increase was in recognition of the current economic climate throughout Canada and particularly in British Columbia and Alberta.

The Board accepts this rate as being reasonable.

Person-years

For 1986, Trans Mountain projected a requirement of 203 person-years including permanent and temporary personnel compared to the approved number of 195 for 1985.

On the basis of the justification submitted by the Company in support of the increase in staff, the Board accepts the projected person-year complement as applied for by Trans Mountain.

Employee Benefits

With respect to employee benefits during the test year, changes are the result of forecast increases in the Company's salary base and higher premiums. The benefits for 1986 amount to 25.5 percent of salaries and wages.

This percentage is in line with the previous year actual benefits and is considered reasonable by the Board.

Recent Test-year Estimates

The Board notes that Trans Mountain's most recent estimates for 1986, provided in the quarterly report of operations as at 30 June 1986, show reductions for salaries and wages of \$250,000 and for benefits of \$44,000 from the amounts submitted in its amended application. The Company's explanation for these variances is that they resulted from positions being filled later than anticipated, positions filled at lower salary levels and a reduction in projected early retirement allowances.

On the basis of the revised estimates for salaries, wages and benefits, the Board is of the opinion that the most recent estimates for salaries, wages and benefits should be included in the cost of service.

4.1.2 Corporate Contributions

Trans Mountain included \$25,000 in Other Expenses for its contribution to the EXPO 86 World Fair. The Company stated that it had made a total contribution of \$56,000, \$31,000 in 1985 and \$25,000 in 1986, but that only the 1986 contribution would be recovered in the cost of service.

In most instances, one could consider that corporate contributions are the responsibility of the Company's shareholders. In this instance the Board notes that there are several factors mitigating against disallowance of the \$25,000. No intervenor has objected to this expenditure. The amount is nominal. The Company has not sought the recovery of its total contribution. Furthermore, the theme of the fair is related to the business of the Company, namely, transportation. Thus, the Board is persuaded to allow this amount in the cost of service.

4.1.3 Fuel and Power

Trans Mountain included in its revised application a provision for fuel and power costs of \$2,617,000 for the test year 1986. This was based on the amended throughput forecast of 26 220 cubic metres per day (m^3/d). In 1985, actual fuel and power costs were \$2,481,000 for a throughput of 25 287 m^3/d .

As described in Section 5.1 of this report, the Board has revised the 1986 throughput forecast to 26 960 m^3/d , thus requiring the amendment of the fuel and power provision to \$2,651,000.

4.1.4 Oil Gain

In its application, Trans Mountain initially projected no oil gain for 1986 despite a substantial oil gain in 1985. The Company explained that it had upgraded the metering facilities for crude oil at Edmonton in late 1985 and that it was now constructing new metering facilities for refined products at Edmonton and Kamloops. Furthermore, the Company was studying the installation of new metering facilities for deliveries to Burnaby, Westridge and Washington State. In its amended application, Trans Mountain projected a \$500,000 oil gain for 1986 and in argument increased this amount by a further \$79,000 to recognize actual sales of oil to date. The Company undertook to sell no more oil resulting from oil gains until it had completed a full investigation.

The Airlines challenged the estimated oil gain based upon the Company's historical pattern. They request-

ed the Board to impute an oil gain credit to the cost of service substantially greater than the partial year amount proposed by Trans Mountain.

Theoretically, oil gains in some years are offset by losses in others. In this case the Board finds there is a historical pattern of gains exceeding losses. During the previous five years Trans Mountain has realized a net gain of \$2,985,000. Although there have been improvements to the Company's metering facilities, this pattern is continuing in the test year. Based upon the average of the Company's realized gains and losses for the previous five years, the Board has decided that a credit of \$597,000 to the cost of service for an oil gain is appropriate.

4.1.5 Rents and Taxes Other Than Income Taxes

These expenses have been adjusted to reflect Trans Mountain's most recent projection for 1986, as mentioned in Section 4.1.

4.2 Depreciation

(a) Adjustment of Depreciation Expense — 1986 Regular Plant Additions

The Board has reduced the estimated average regular 1986 plant additions as indicated in Section 2.1. This has resulted in an adjustment of 40 percent of the depreciation expense calculated by the Company for these additions. Depreciation expense has consequently been reduced by \$33,000.

(b) Excess Depreciation

Trans Mountain included in its calculation of depreciation for a number of additions, depreciation expense for a longer period than 12 months. The excess depreciation amounted to \$3,627.

The excess depreciation as well as the consequent increases in accumulated depreciation have been disallowed by the Board.

4.3 Amortization

Trans Mountain included in its forecast 1986 cost of service, development costs associated with its proposed Kamloops refined products distribution terminal and uninsured losses arising from damage caused by flooding in the Coquihalla River Valley in 1984. Comments follow on these two matters. Trans Mountain's proposed amortization of these two items

in 1986 and the amounts allowed by the Board are summarized in Table 4-2.

Table 4-2
Amortization of Other Deferred Costs

	Application as Amended	NEB Adjustments	NEB Allowed
Kamloops Terminal Development Costs	\$135,000	\$(67,530)	\$67,470
Coquihalla Washout - Uninsured Losses	94,000	93,240	187,240
	\$229,000	\$25,710	\$254,710

4.3.1 Kamloops Terminal Development Costs

The costs incurred to develop the Kamloops Refined Products Distribution Plant project to the point of application for regulatory approval amounted to \$269,882. Trans Mountain, expecting to handle the refined petroleum products of Gulf Canada Limited (Gulf) and others, had proposed to construct a refined petroleum products terminal at its Kamloops, B.C. pump station and to upgrade its existing pipeline to transport these products from Edmonton to Kamloops. However, in 1985 Trans Mountain decided not to pursue the project because of the loss of the Gulf terminal volume and the decision by others not to participate.

Trans Mountain's proposed distribution plant was primarily intended to enable the Company to diversify into the field of refined products distribution, but the Company also noted that all shippers would benefit from increased volumes. In addition, Trans Mountain believed that in terms of pipeline transportation costs, the Kamloops project represented the most efficient means of transporting refined petroleum to Kamloops. Had this project gone ahead it would have maximized the benefits of transportation savings available to the shippers. Under these circumstances, the Company considered it appropriate that the deferred costs of this project be recovered in its tolls. Trans Mountain stated that the project would have been a regulated project.

In argument, Trans Mountain asserted that shippers had benefited from its initiative in this area. The current refined petroleum traffic resulted, it maintained, because its study had acted as the major catalyst for pipeline movement of refined petroleum. This additional traffic had widened the expense allocation base.

Imperial stated that Trans Mountain shippers should not be required to bear the full amount of the Kamloops terminal development costs. In argument, Imperial said that its position reflected the principle applied by the Board previously in cases of a similar nature,

that an allocation of development costs should be in accordance with the level of benefits accruing to each of the parties from such a project. Imperial, quoting Shell's evidence, stated that work related to the Kamloops terminal itself gave little benefit to existing shippers. Imperial submitted that the portion of the total Kamloops terminal development costs to be borne by Trans Mountain's shippers should be a nominal amount.

Shell and Imperial referred to a case (development costs for Trans Mountain's proposed west-to-east pipeline) in which the Board had found that a fair allocation of risk and cost to the shippers was 25 percent of the development costs incurred. Shell maintained that only a portion of the costs related to the Kamloops terminal had benefited the existing shippers and, therefore, that these costs should be shared equally by Trans Mountain and the shippers. Also, Shell was of the opinion that these costs should be recovered in 1986 rather than being amortized over a two-year period.

The Airlines maintained that Trans Mountain should not recover any of the project development costs for the Kamloops terminal through tolls because there was no evidence of any benefit to shippers.

The Board finds that the modification of the Company's pipeline for the purpose of transporting refined petroleum is in keeping with the functions of Trans Mountain as a common carrier. However, the Company's proposed Kamloops distribution plant was primarily intended to enable it to diversify into a new field. Generally, when companies envision a new business activity, in many cases a regulated company such as Trans Mountain would have an advantage over an unregulated company if the Board were to allow the regulated company to recover the full preliminary costs of proposed facilities which were not built. This could discriminate against unregulated companies and might discourage them from pursuing projects in competition with a regulated company if they believed the regulated company could always recover its full costs. The Board believes that Trans Mountain should not be put in a position of advantage vis-à-vis unregulated businesses, but to the extent that shippers benefit from the proposed project, the Company's shareholders should not have to bear the cost. However, only a relatively small part of the total costs related to the Kamloops terminal benefited existing shippers.

Therefore, the Board allows 25 percent of the Kamloops terminal development costs in cost of service. The amount of \$67,470 will be amortized in the 1986 test year.

4.3.2 Coquihalla Washout - Uninsured Losses

Trans Mountain had uninsured losses of \$187,240, arising from flood damage suffered in the Coquihalla River Valley in 1984 (\$185,200) and from the unearned premium of \$2,040 paid to the Northumberland General Insurance Company. This insurance company, which underwrote 20 percent of the total claim of \$926,000, collapsed, and there is little likelihood of recovery upon its liquidation.

Trans Mountain maintained that the 1984 flooding of the Coquihalla River was an unpredictable random event and that such events may be best characterized as a catastrophic loss of Company property. This is a risk to which Trans Mountain is constantly exposed, but the Company did not include, and is not seeking to include, a provision for the risk of catastrophic loss in its rate of return on rate base. Trans Mountain has provided for such losses by maintaining insurance coverage the cost of which has been recognized as a legitimate component of the cost of service.

The Company submitted that it was just and reasonable to recover the uninsured loss. As the Company was not otherwise compensated for risks of this nature, denial of this amount would, in Trans Mountain's view, effectively place the Company's shareholders in the position of an insurer of this risk without the benefit of receiving compensating premiums. Trans Mountain proposed that the uninsured loss of \$187,240 be amortized over a two-year period commencing in 1986.

Shell agreed with the principle of allowing uninsured losses to be recovered as part of the cost of service. However, Shell believed that when costs of this nature can be totally recovered in one year without any undue effect on the total cost of service, then amortization over two or more years should not be advocated. Shell recommended, therefore, that the Board give consideration to allowing these costs to be totally recovered in 1986.

Trans Mountain appears to have acted prudently by prepaying the annual insurance premium to cover the potential loss. Neither is the loss the fault of the shippers who generally paid for the insurance in the cost of service. The Board has decided to allow the Coquihalla washout uninsured losses in cost of service. The full amount of \$187,240 will be amortized in the 1986 test year.

4.4 Income Taxes

4.4.1 Normalized Income Taxes

Trans Mountain has used the normalized method of calculating its income tax provision in the test year which is consistent with the method used in the past.

Under the present circumstances, the Board considers the continued use of the normalized method to be appropriate. The Board has calculated \$3,677,000 as the amount of the income tax provision to be included in the cost of service. This amount is calculated on a basis consistent with the after-tax return on equity implicit in the allowed deemed capital structure. Since taxes payable are included in working capital, an iterative process has been used to compute rate base, return and income taxes.

4.4.2 Average Accumulated Deferred Income Taxes

In its amended application of 4 July 1986, Trans Mountain forecasted \$1,630,800 as the 1986 average accumulated deferred income taxes. The Board has revised this amount to \$1,607,000 to reflect its decisions related to this calculation.

Table 4-3 shows the calculation of the average accumulated deferred income taxes for the test year.

Table 4-3
Average Accumulated Deferred Income Taxes
(\$000)

Net Timing Differences per Amended Application	(3,233)
NEB Adjustments:	
Reduction in Depreciation ¹	(37)
Increase in Interest AFUDC ²	(6)
Increase in Deferred Charges for Preliminary Surveys and Investigations ³	135
Total Adjustments	92
Revised Net Timing Differences	(3,141)
Provision for Deferred Income Taxes at 52.30%	(1,643)
Balance at January 1, 1986	(785)
Balance at December 31, 1986	(2,428)
Average Accumulated Deferred Income Taxes	(1,607)
Notes:	
1 To reflect the Board decisions in Section 4.2.	
2 To reflect the Board's rate of return decisions in Chapter 3.	
3 Calculated as follows:	
Amortization of Kamloops terminal development costs (Section 4.3.1)	67
Balance of Kamloops terminal development costs disallowed by the Board and previously expensed for income tax purposes	203
Capitalized portion of Kamloops terminal development costs (previously expensed for taxes)	30
Forecast 1986 deferred charges for preliminary surveys and investigations	(158)
Revised deferred charges for preliminary surveys and investigations	142
Deferred charges for preliminary surveys and investigations per amended application	(7)
Increase in deferred charges for preliminary surveys and investigations	135

4.5 Total Cost of Service

Table 4-4 lists the cost of service allowed to the Company after giving effect to the decisions of the Board mentioned in various sections of this Reasons for Decision.

Table 4-4
Summary of Cost of Service
(\$000)

	Application as Amended	NEB Adjustments	NEB Allowed
Operating Expenses	28,210	(667)	27,543
Plant Depreciation	2,594	(37)	2,557
Amortization of Toll Hearing Costs	276	—	276
Amortization of Other Deferred Costs	229	26	255
Income Taxes, Including Surtax	4,105	(428)	3,677
Return on Rate Base	6,581	(583)	5,998
Revenue Other Than Carrier Revenue	(230)	—	(230)
	<u>41,765</u>	<u>(1,689)</u>	<u>40,076</u>

Chapter 5

Toll Design and Other Tariff Matters

This chapter addresses the matters of throughput, toll surcharges and the determination of mainline and other tolls based on the decisions and resulting adjustments described in preceding chapters.

5.1 Throughput

Trans Mountain provided an amended throughput forecast of 26 220 m³/d for the 1986 test year.

The Board has increased this forecast to reflect the probability of:

1. a higher level of exports to the Washington State refineries, because of the Supplementary Oil Sales Program, and
2. an additional cargo off the Westridge dock because of possible constraints on the Interprovincial Pipe Line Limited system.

Table 5-1 details the Company and Board projections.

Table 5-1
Petroleum Deliveries 1986
(m³/d)

	Application As Amended	NEB Adjustments	NEB Allowed
From Edmonton			
To Kamloops	700	—	700
To Sumas	3 800	533	4 333
To Vancouver	17 820	207	18 027
From Edson			
To Sumas	—	—	—
To Vancouver	600	—	600
From Kamloops			
To Sumas	—	—	—
To Vancouver	3 300	—	3 300
Total	26 220	740	26 960
Edson Condensate			
Gathering Line	170	—	170
Westridge Loading Wharf	1 180	205	1 385

5.2 Toll Methodology

At its 1985 toll hearing, Trans Mountain submitted a toll design study which recommended a revised toll methodology. This new methodology sought to implement a fixed and variable toll design in order to limit the impact on the Company's earnings of throughput variations caused primarily by export deliveries. Owing to the unanimous opposition of its shippers to the new approach, Trans Mountain withdrew this proposal in favour of an alternative methodology.

The alternative methodology was supported by the Company's shippers and accepted by the Board in its 1985 Reasons for Decision. Under this methodology, 13-month throughput forecasts are provided monthly by the Company's shippers. Trans Mountain then prepares a composite forecast expressed in cubic metre-kilometres (m³ km) for the current calendar year. The Company is required to file new tolls whenever this forecast varies by 5 percent or more from the throughput forecast used to determine existing tolls.

In the current application, Trans Mountain commented that it had found these shipper forecasts totally unreliable with respect to export deliveries. During its review of the application, the Board requested Trans Mountain to consider other methodologies to address the problem of throughput variation.

Trans Mountain subsequently met with its shippers to discuss this issue. It was the unanimous view at this meeting that it would be premature to vary the current toll methodology. Further, there was no consensus on a preferred alternate methodology. Trans Mountain suggested that the trial period for the current methodology be extended to the end of 1987. Trans Mountain did not object to the suggestion of two of its shippers that, for the present, the threshold throughput variation used to trigger a toll adjustment be reduced from 5 percent to 4 percent.

The Board recognizes the difficulty inherent in forecasting throughput for this pipeline. The effect of a throughput variation on the Company's rate of return is magnified by the relatively small equity base. While the Board appreciates that it may be premature to

vary the toll methodology, it wishes to keep this matter under review. Therefore, the Board directs Trans Mountain to file an evaluation of the current toll methodology by 30 September 1987. In the meantime, the Board accepts the suggestion to reduce the throughput trigger for a toll adjustment to 4 percent.

5.3 Surcharges for Heavy Crudes

Trans Mountain applied to implement toll surcharges of 5 percent and 15 percent for the transportation of medium and heavy crudes, respectively. Under Order No. TOI-3-85, the Board allowed these surcharges to be charged on an interim basis pending its final review.

Evidence was presented during the course of the proceeding to show that the transportation of heavy crude oil requires more pipeline capacity for its shipment than an equivalent volume of light crude oil or refined petroleum products. The Board was informed that under conditions where the existing Trans Mountain system was operating at capacity, one 70 000 m³ shipment of heavy crude would displace 10 000 m³/d of light crude oil for each day of a 20-day period.

In its evidence and argument, Trans Mountain proposed that under present operating conditions fixed surcharges of 5 percent and 15 percent for medium and heavy crude oil, respectively, be implemented on a final basis to cover increased pumping costs, and to recognize any possible loss of revenue resulting from a short-term reduction in pipeline rate. Trans Mountain argued that it was not currently in a position to make any meaningful forecast of the timing or volume of future heavy crude oil shipments. A limited number of such shipments have been made to date, and regular shipments are not projected to occur before 1988. The Company suggested that there should be no continuing need to allocate pipeline capacity as a result of light crude displacement associated with such shipments, because the Company would endeavour to increase system capacity as required to satisfy the overall demand for throughput transportation.

Petro-Canada Inc. (Petro-Canada) stated that having a fixed surcharge to cover capacity reduction effects was not appropriate, on the grounds that the amount of such a reduction would vary according to the operating conditions prevalent at the time each heavy crude shipment was made. It proposed instead that a two-part variable surcharge be implemented, one part to cover incremental operating (fuel and power) costs associated with heavy crude shipments, and one part to cover revenue shortfalls resulting from capacity reduction effects. Petro-Canada proposed that these surcharges be set and implemented by the Board

prior to each heavy crude oil shipment, based on information supplied by Trans Mountain regarding heavy crude nominations and any constraints to light crude capacity likely to result. Petro-Canada submitted that heavy crude shippers should bear all the incremental costs associated with the movement of heavy crude. The three sets of costs to be covered were (a) capacity reduction, (b) incremental fuel and power, and (c) new facilities.

Both Shell and Imperial suggested that the issue of surcharges for heavy crude oil was generic in nature, and would be more appropriately dealt with at a subsequent toll hearing for one of the affected carriers. This would allow an in-depth examination of the complicated factual considerations and policy and technical issues involved. In the meantime, Shell would support the 5 percent and 15 percent surcharges for medium and heavy crudes, respectively. Imperial supported the 15 percent surcharge for heavy crude as proposed by Trans Mountain to cover increased operating costs, subject to evidence being presented by Trans Mountain at its next Class 3 toll hearing to support the level of these charges.

The Airlines argued in a similar way to Petro-Canada that tolls for the transportation of heavy crude oil should be fully compensatory, covering both incremental operating costs and compensation for foregone revenues resulting from the pipeline capacity lost as a result of such shipments. They supported the implementation of these surcharges via the issuing of interim toll orders by the Board.

The Board recognizes as a major concern the potential displacement of light crude oil volumes that could accompany heavy crude oil shipments over the Trans Mountain system. It is also concerned with ensuring that the tolls for heavy crude oil transportation are equitable, in the sense of covering their appropriate share of pipeline transportation costs. Furthermore, it sees merit in the argument that where shipments of heavy crude oil displace a greater volume of light crude as a result of capacity reduction effects, toll surcharges that reflect both increased system operating costs and light crude revenue displacement effects, provide a more appropriate signal to heavy crude shippers regarding the transportation costs involved.

The Board notes, however, that Trans Mountain has deleted from the throughput forecast in its amended application the heavy crude shipment it had originally projected, and that no such shipments are currently mentioned in its thirteen-month forecast from July 1986 through July 1987. The Board is prepared at this time to approve the Trans Mountain proposal for a fixed surcharge on heavy crude shipments only at a rate of 15 percent, to cover both increased operating

costs and capacity reduction effects. The Board emphasizes, however, that this is a decision solely designed to cover the shorter-term operating conditions currently projected, pending a broader and more comprehensive examination of the issue at a future public hearing.

With respect to the proposed 5 percent surcharge for medium crudes, the Board finds that it has insufficient evidence of any cost differences to determine an appropriate surcharge for the transportation of these crudes. Accordingly, the Board disallows this surcharge.

5.4 Refined Petroleum Toll

In 1985 the Board approved a toll design for the transportation of refined products from Edmonton to Kamloops. This required Gulf, the shipper of refined petroleum, to pay a fixed monthly charge of \$10,625 and a volumetric surcharge of \$0.443 per m³, as well as the transportation toll for light crude oil. The fixed charge was designed to recover the fixed costs of additional facilities, whereas the volumetric surcharge was based on estimated incremental operating costs and volumes of refined products.

In its toll application, Trans Mountain applied to discontinue the volumetric surcharge and to revise the monthly charge. The Company proposed to set the monthly charge equal to one-twelfth of the forecast annual revenue requirement in respect of the additional facilities. This change was made pursuant to an agreement between Trans Mountain and Gulf, whose interest was subsequently transferred to Petro-Canada. A further change provided for the retrospective adjustment on or before 15 February of the following year to compensate for any difference between forecast and actual costs. These changes were embodied in a tariff to be effective 1 January 1986. Under Order No. TOI-4-85, this tariff was implemented on an interim basis pending a final determination of Trans Mountain's tolls.

The Board notes that the effect of the proposed changes is to implement a full cost of service tariff for a portion of the revenue requirement. The Board is concerned that Trans Mountain has not provided a procedure for the Board to review the final cost of service allocated to refined petroleum and, further, that this methodology may require modification to accommodate other shippers of refined petroleum. Since this tariff is the result of an agreement between the parties, the Board is prepared to accept the proposed tariff with the following provisos:

1. Trans Mountain will submit its initial and final determination of the cost of service and the monthly charge for refined petroleum to the Board for approval.
2. This tariff methodology will be subject to review whenever other parties become shippers of refined petroleum.

The Board directs Trans Mountain to charge Petro-Canada the monthly toll shown in Table 5-2, beginning on 1 November 1986. The Company is also directed to include in the invoice for the month of November 1986 the difference between the above-mentioned toll and the toll set by Order No. TOI-4-85, for the period 1 January 1986 to 31 October 1986, together with interest on each month's component of the difference for the period from the date of the invoice under which that component was collected to the date of the invoice for November 1986, at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans.

Table 5-2
Refined Petroleum Charge

	Application as Amended (\$)	NEB Adjustments (\$)	NEB Allowed (\$)
Rate Base Computation			
Net Assets in Service	2,069,100	—	2,069,100
Average Deferred Income		—	(162,700)
Taxes	(162,700)		
Working Capital	8,300	(673)	7,627
Total Rate Base	1,914,700	(673)	1,914,027
Cost of Service			
Operating Expenses	200,000	—	200,000
Amortization	92,800	—	92,800
Return on Rate Base	262,100	(16,747)	245,353
Provision for Income Taxes	165,000	(13,067)	151,933
Revenue Requirement	719,900	(29,814)	690,086
Monthly Transportation Charge			
	59,992	(2,485)	57,507

5.5 Computation of Tolls

Tables 5-3 to 5-6 set forth the computation of the Shell Special Stream, Edson gathering line and main-line transportation tolls respectively.

Table 5-3

Shell Special Stream Charge

	Application as Amended (\$)	NEB Adjustments (\$)	NEB Allowed (\$)
Rate Base Computation			
Net Assets in Service	557,458	—	557,458
Average Deferred Income		—	(14,200)
Taxes	(14,200)		
Working Capital	5,553	(195)	5,358
Total Rate Base	548,811	(195)	548,616
Cost of Service			
Operating Expenses	57,000	—	57,000
Amortization	42,100	—	42,100
Return on Rate Base	76,120	(5,795)	70,325
Provision for Income Taxes	46,635	(3,746)	42,889
Revenue Requirement	221,855	(9,541)	212,314
Monthly Transportation Charge			
	18,488	(795)	17,693

Table 5-4

Edson Gathering Line Charge

	Application as Amended (\$)	NEB Adjustments (\$)	NEB Allowed (\$)
Rate Base Computation			
Net Assets in Service	53,208	—	53,208
Average Deferred Income		—	(11,533)
Taxes	(11,533)		
Working Capital	1,405	(16)	1,389
Total Rate Base	43,080	(16)	43,064
Cost of Service			
Operating Expenses	23,000	—	23,000
Depreciation	3,000	—	3,000
Return on Rate Base	5,975	(455)	5,520
Provision for Income Taxes	3,661	(294)	3,367
Revenue Requirement	35,636	(749)	34,887
Throughput (m³/d)	170	—	170
Toll (\$/m³)	0.574	(0.012)	0.562

Table 5-5

Computation of 1986 Tolls

					(\$000)
Revenue Requirement					40,076
Less:					
Refined Petroleum Charge					(690)
Shell Special Stream Charge ³					(212)
Edson Gathering Line Charge					(35)
Westridge Loading Revenues					(127)
Surcharge Revenues					(80)
Crude Oil Revenue Requirement					38,932
Calculation of Volume/Distance Units					
Source	Delivery Points	km	m ³	m ³ km	
Edmonton	Kamloops	822	700	575	400
	Sumas	1 090	4 333	4 722	970
	Burnaby	1 146	18 027	20 658	942
Edson	Sumas	861	—	—	—
	Burnaby	918	600	550	800
Kamloops	Sumas	267	—	—	—
	Burnaby	324	3 300	1 069	200
				26 960	27 577 312
Annualized (m³ km)					10 065 718 880
Unit transportation charge (\$/m³ km)					0.003867781

Table 5-6

Tolls

From	To	Toll (\$/m ³)
Edmonton	Kamloops	3.179
Edmonton	Sumas	4.216
Edmonton	Burnaby	4.432
Edson	Kamloops	2.297
Edson	Sumas	3.330
Edson	Burnaby	3.551
Kamloops	Sumas	1.033
Kamloops	Burnaby	1.253

Other Charges and Tolls

Refined Petroleum - Monthly Charge	\$57,507
Shell Special Stream - Monthly Charge	\$17,693
Edson Gathering Line Toll	\$0.562/m ³
Westridge Loading Charge	\$0.251/m ³

Chapter 6 Disposition

The foregoing, together with Board Order Nos. TOI-3-85, TOI-4-85, AO-1-TOI-4-85 and TO-2-86, constitute our Reasons for Decision and our Decisions in this matter.



A.D. Hunt
Presiding Member



J. Farmer
Member



W.G. Stewart
Member

Ottawa, Canada
September 1986

Appendix I

ORDER NO. TOI-3-85

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an Application by Trans Mountain Pipe Line Company Ltd. for an amendment to Petroleum Tariff No. 29 respecting the transportation of medium and heavy petroleum pursuant to Part IV of the Act, filed with the Board under File No. 1848-T4.

B E F O R E the Board on Wednesday the 27th day of November 1985.

WHEREAS by letter dated 22 October 1985 the Board established tolls to be charged by Trans Mountain Pipe Line Company Ltd. (hereinafter called "Trans Mountain") effective 1 November 1985;

AND WHEREAS Trans Mountain subsequently filed Tariff No. 29 under letter dated 28 October 1985 containing the prescribed tolls;

AND WHEREAS by letter dated 22 November 1985 Trans Mountain filed with the Board an amendment as Supplement No. 1 to Petroleum Tariff No. 29 to be effective 1 December 1985 for the transportation of medium and heavy petroleum;

AND WHEREAS the Board wishes to consider the submissions of interested parties in this matter;

AND WHEREAS the Board considers it desirable to implement a tariff amendment to be effective 1 December 1985 to provide for the transportation of medium and heavy petroleum;

IT IS ORDERED THAT:

1. The toll established by and the tariff filed as Supplement No. 1 to Petroleum Tariff No. 29 shall be an interim toll and tariff.
2. This interim order shall come into force on 1 December 1985 and remain in effect only until the Board issues its final order in this matter.

Dated at the City of Ottawa in the Province of Ontario, this 27th day of November 1985.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix II

ORDER NO. TOI-4-85

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an Application by Trans Mountain Pipe Line Company Ltd. ("Trans Mountain") for an adjustment of its tolls pursuant to Part IV of the Act, filed with the Board under File No. 1762-T4-10.

B E F O R E the Board on Thursday the 19th day of December 1985.

WHEREAS Trans Mountain filed an application dated 31 October 1985 under Section 50 of the Act for an Order to adjust the tolls set out in Tariff No. 29;

AND WHEREAS the Board has issued Board Orders No. TO-5-85 and AO-1-TO-5-85 providing for the application procedures for adjusting the tolls of Trans Mountain;

AND WHEREAS the Board wishes to review the continued appropriateness of the tolls contained in Tariff No. 29;

THEREFORE IT IS ORDERED THAT:

Pursuant to Subsections 16.1(2) and 52.2 of the Act the following tolls shall be interim tolls effective 1 January 1986:

- (a) the tolls contained in Schedule "A", attached hereto;
- (b) the tolls contained in Tariff S2; and
- (c) the tolls contained in Tariff RP2.

Dated at the City of Ottawa in the Province of Ontario, this 19th day of December 1985.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Attach.

Attachment to Board Order No. TOI-4-85

Schedule "A" Interim Tolls

CRUDE PETROLEUM OF DENSITY GREATER THAN 611 KG/m³ AND LESS THAN 877 KG/m³

From	To	Toll \$/m ³
Edmonton	Kamloops	3.661
Edmonton	Sumas	4.854
Edmonton	Burnaby	5.104
Edson	Kamloops	2.646
Edson	Sumas	3.835
Edson	Burnaby	4.089
Kamloops	Sumas	1.189
Kamloops	Burnaby	1.443

OTHER CRUDE PETROLEUM CHARGES

Westridge Loading Charge	0.251
Edson Gathering Charge	0.484

**Hearing Order RH-1-86
Directions on Procedure
Trans Mountain Pipe Line Company Ltd.
Application for Tolls to Take Effect 1 January
1986**

By Application dated 31 October 1985 and an amendment dated 28 February 1986, Trans Mountain Pipe Line Company Ltd. ("Trans Mountain" or "the Applicant") applied under Section 50 of the National Energy Board Act for an order to adjust its tolls. The National Energy Board ("the Board") has set interim tolls for Trans Mountain under Order No. TOI-4-85 effective 1 January 1986. Trans Mountain has requested that the Board dispense with a public hearing for this Application. The Board has decided to seek the views of interested parties to aid it in determining the need for a public hearing and directs as follows:

1. The Applicant shall deposit and keep on file, for public inspection during normal business hours, a copy of the Application as amended in its offices at Suite 800, Broadway Plaza, 601 West Broadway, Vancouver, British Columbia, V5Z 4C5. A copy of the Application is also available for view in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario K1A 0E5 and at the Board's Calgary office, 4500-16th Avenue, N.W., Calgary, Alberta, T3B 0M6.
2. Interventions are required to be filed with the Secretary and Trans Mountain by 25 April 1986. Parties are requested to indicate in their interventions whether they consider that a public hearing on all issues or a public hearing limited to particular issues in which they have an interest is necessary and whether they would make a further written submission and/or participate in a public hearing if one were held.
3. The Secretary will issue a list of intervenors shortly after 25 April 1986.
4. Trans Mountain will then have the opportunity to make any further comments to the Board regarding procedure by 9 May 1986.

5. The Board will issue shortly thereafter a further Directions on Procedure.
6. Letters of comment on the Application are required to be filed with the Board and served on Trans Mountain by 25 April 1986.
7. The Applicant shall serve forthwith one copy of these directions with the attached public notice and a copy of the application on parties listed in Appendix I and interested parties to Board Order No. RH-4-84, as well as its shippers and any other person who, to Trans Mountain's knowledge, has expressed an interest in these proceedings. Trans Mountain is directed to file with the Board one copy of a list of all parties served.
8. The publications in which the Applicant is required to publish the public notice are as follows:

Publication	City
"Times Colonist"	Victoria, British Columbia
"The Sun", The "Vancouver Province" & "Le Soleil de Colombie"	Vancouver, British Columbia
"The Edmonton Journal" & "Le Franco-albertain"	Edmonton, Alberta
"Calgary Herald"	Calgary, Alberta
"Globe and Mail", "Le Toronto Express" & "Financial Post"	Toronto, Ontario
"The Gazette"	Montreal, Quebec
"Canada Gazette"	Ottawa, Ontario

9. The Board intends to examine, but does not limit itself to, the following specific issues:
 - (a) The determination of an appropriate capital structure, cost of debt and rate of return on common equity;
 - (b) The examination of amounts shown for plant additions and retirements;

- (c) The allowance of a return on deferred costs;
 - (d) The amortization of uninsured losses and project development costs for the Kamloops terminal;
 - (e) The estimation of salaries and wages expense;
 - (f) The treatment of oil losses and gains;
 - (g) The Applicant's throughput forecast, and whether the current procedures for dealing with variances from forecasts are appropriate;
 - (h) The allocation of overhead to nonjurisdictional activities;
 - (i) The proposed surcharges for heavy crudes; and
 - (j) The treatment of costs and revenues associated with the transportation of methanol.
10. Intervenors wishing to raise matters not addressed in Trans Mountain's Application or outlined in paragraph 8 should so indicate at the time of filing their intervention.
 11. Where parties are directed by these Directions on Procedure to file with the Board or serve documents on other parties, the following shall apply:
 - (a) 35 copies of the document are to be filed with the Board;
 - (b) 3 copies of the document are to be served on the Applicant; and
 - (c) 1 copy of the document is to be served on intervenors.
 12. Persons filing letters of comment should serve one copy of the documents on Trans Mountain and file one copy with the Board, which in turn will provide copies for all other parties.
 13. All parties are asked to quote Order No. RH-1-86 when corresponding with the Board in this matter.

J.S. Klenavic
Secretary

Appendix I to Order RH-1-86

Attorney General for the
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 4S6

Attorney General for the
Province of Alberta
c/o Geoffrey Ho
Senior Solicitor
Energy and Natural Resources
10th Floor, 9915-108th Street
Edmonton, Alberta
T5K 2C9

Attorney General for the
Province of Saskatchewan
Legislative Buildings
Regina, Saskatchewan
S4S 0B3

The Secretary
British Columbia Utilities Commission
4th Floor
800 Smithe St.
Vancouver, B.C.
V6Z 2E1

The Secretary
Canadian Petroleum Association
1500-633 Sixth Avenue S.W.
Calgary, Alberta
T2P 2Y5

Manager, Regulatory Affairs
Independent Petroleum Association
of Canada
700, 707-7th Avenue S.W.
Calgary, Alberta
T2P 0Z2

NATIONAL ENERGY BOARD

PUBLIC NOTICE

Trans Mountain Pipe Line Company Ltd. Application for Tolls Effective 1 January 1986

By Application dated 31 October 1985 and an amendment dated 28 February 1986, Trans Mountain has applied pursuant to Part IV of the National Energy Board Act for, among other things, orders respecting the tolls which Trans Mountain may charge as of 1 January 1986 for its transportation services. Trans Mountain has requested that the Board dispense with a public hearing for this Application. The Board wishes to seek the views of interested parties to aid it in determining the need for a public hearing for the Application.

Anyone wishing to intervene in this proceeding must file a written intervention with the Secretary of the Board and serve a copy on Trans Mountain by 25 April 1986. Parties are requested to indicate in their interventions whether they consider that a public hearing on all issues or a public hearing limited to particular issues in which they have an interest is necessary and

whether they would make a further written submission and/or participate in a public hearing if one were held.

Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to Trans Mountain at Suite 800, Broadway Plaza, 601 West Broadway, Vancouver, British Columbia, V6Z 4C5 by 25 April 1986.

Information on the procedures for this proceeding (Reference Number: RH-1-86) is available in both English and French and may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office (613) 998-7206. Please quote Order RH-1-86 when corresponding with the Board on this matter.

J.S. Klenavic
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5

27 March 1986

Hearing Order AO-1-RH-1-86

Directions on Procedure

Trans Mountain Pipe Line Company Ltd. Application for Tolls to Take Effect 1 January 1986

By application dated 31 October 1985 and an amendment to that application dated 28 February 1986, Trans Mountain Pipe Line Company Ltd. ("Trans Mountain" or "the Applicant") applied to the National Energy Board ("the Board") for an order to adjust its tolls without a public hearing. The Board set interim tolls for Trans Mountain effective 1 January 1986 under Order No. TOI-4-85 and sought the views of interested parties under Order No. RH-1-86, issued 27 March 1986 to aid it in determining the need for a public hearing. After considering the comments of interested parties and the Applicant, the Board has decided to proceed by written submission. This procedure does not preclude the possibility that circumstances could develop whereby a public hearing might be required to consider some or all of the issues that might arise in dealing with the application. Therefore, the Board directs as follows:

Public Viewing

1. The Applicant shall continue to keep on file for public inspection during normal business hours, a copy of the application, as amended, and a copy of the information supplied in answer to the Board's information requests in its offices at Suite 800, Broadway Plaza, 601 West Broadway, Vancouver, British Columbia, V5Z 4C5. A copy of this material is also available for viewing in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, K1A 0E5 and at the Board's Calgary office, 4500-16th Avenue, N.W., Calgary, Alberta, T3B 0M6.

Written Evidence

2. The Applicant's additional written evidence shall be filed with the Secretary and served on all other parties by 28 May 1986.

3. Interested parties' written evidence is required to be filed with the Board and served on all other parties by 16 June 1986.

Information Requests

4. Information requests addressed to the Applicant are required to be filed with the Board and served on all other parties by 2 June 1986.
5. The Applicant's responses to information requests received within the specified time limit shall be filed with the Board and served on all other parties by 9 June 1986.
6. Information requests to interested parties are required to be filed with the Board and served on all other parties by 24 June 1986.
7. Interested parties' responses to information requests received within the specified time limit shall be filed with the Board and served on all other parties by 4 July 1986.

Written Argument

8. Trans Mountain's written argument shall be filed with the Board and served on all other parties by 11 July 1986.
9. Interested parties' written argument shall be filed with the Board and served on all other parties to the proceeding by 18 July 1986.
10. Trans Mountain's written reply shall be filed with the Board and served on all other parties to the proceeding by 24 July 1986.

Issues

11. To assist the Applicant and interested parties in preparing their written evidence and argument, the Board has identified the following issues. In identifying these issues, the Board does not limit itself to consideration of only these items.
 - (a) Allowability of 1986 proposed plant additions in rate base

- (b) Recovery of uninsured losses
- (c) Recovery of project development costs for the Kamloops products terminal
- (d) The allowance of a return on the average unamortized balance of deferred costs for the 1984/85 toll hearing, uninsured losses and project development costs for the Kamloops products terminal
- (e) The estimation of salaries and wages expense
- (f) The cost of computer maintenance
- (g) The cost of the Applicant's apprenticeship program
- (h) Inclusion of contributions to Expo 86 in the cost of service
- (i) The need for a special study of the Mainline Oil Spill Contingency Plan
- (j) The treatment of oil losses and gains
- (k) The treatment of costs and revenues associated with the transportation of methanol
- (l) Depreciation rates for the Applicant's helicopter and anchor system for the Westridge containment boom
- (m) Capital structure
- (n) The amount of long-term debt allocated to regulated operations
- (o) The cost rate for unfunded debt
- (p) The rate of return on common equity
- (q) The 1986 throughput forecast
- (r) The proposed surcharges for heavy crudes
- (s) Appropriateness of the toll procedures for dealing with variations in throughput

Service to Parties

12. The Applicant shall serve forthwith one copy of these Directions on each of the interested parties listed in the Board's letter issued on 29 April 1986 pursuant to paragraph 3 of Order No. RH-1-86.

Filing and Service Requirements

13. Where parties are directed by these Directions on Procedure to file with the Board or serve documents on other parties, the following shall apply:
 - (a) 35 copies of the document are to be filed with the Board;
 - (b) 3 copies of the document are to be served on the Applicant;
 - (c) 1 copy of the document is to be served on interested parties; and
 - (d) the date of filing or serving shall be the date of actual receipt by the Board in the case of filing and the date of actual receipt by the person who is to receive the document in the case of serving.

General

14. All parties are asked to quote Order No. AO-1-RH-1-86 when corresponding with the Board in this matter.
15. These Directions on Procedure supplement the draft NEB Rules of Practice and Procedure dated 18 February 1985.

J.S. Klenavic
Secretary

15 May 1986

Appendix V

ORDER NO. AO-1-TOI-4-85

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. ("Trans Mountain") for an adjustment of its tolls pursuant to Part IV of the Act, filed with the Board under File Nos. 1762-T4-10 and 1762-T4-11.

BEFORE:

A.D. Hunt
Presiding Member

J. Farmer On Tuesday, the 27th day
Member of May, 1986
W.G. Stewart
Member

WHEREAS Trans Mountain filed an application dated 31 October 1985 under Section 50 of the Act for an Order to adjust the tolls set out in Tariff No. 29;

AND WHEREAS the Board issued Board Order No. TOI-4-85 implementing interim tolls effective 1 January 1986;

AND WHEREAS Trans Mountain filed amendments dated 28 February 1986 and 25 April 1986 to its application;

IT IS ORDERED THAT Order No. TOI-4-85 be varied by revoking paragraph (a) and replacing it with the following:

"(a) until 1 June 1986 the tolls contained in Schedule "A", attached hereto, and thereafter the tolls contained in Tariff No. 29, also attached hereto as Schedule "B";"

Dated at the City of Ottawa in the Province of Ontario, this 27th day of May 1986.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Attachment to Board

Order No. AO-1-TOI-4-85

Schedule "B"

Interim Tolls Effective 1 June 1986

CRUDE PETROLEUM OF DENSITY GREATER THAN 611 KG/m³ AND LESS THAN 877 KG/m³

From	To	Toll \$/m ³
Edmonton	Kamloops	3.328
Edmonton	Sumas	4.413
Edmonton	Burnaby	4.640
Edson	Kamloops	2.405
Edson	Sumas	3.486
Edson	Burnaby	3.717
Kamloops	Sumas	1.081
Kamloops	Burnaby	1.312

OTHER CRUDE PETROLEUM CHARGES

Westridge Loading Charge	0.251
Edson Gathering Charge	0.484

Order No. TO-2-86

IN THE MATTER OF the National Energy Board Act (the Act) and the Regulations made thereunder, and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (hereinafter called Trans Mountain) for an Order under the Act for new tolls, filed with the Board under File Nos. 1762-T4-10 and 1762-T4-11.

BEFORE:

A.D. Hunt
Presiding Member

J. Farmer On Wednesday, the 17th day
Member of September 1986

W.G. Stewart
Member

WHEREAS, pursuant to Section 50 of the Act, Trans Mountain filed an application dated 31 October 1985, as amended 28 February 1986, 25 April 1986 and 4 July 1986 (the application), for an order approving new tolls effective 1 January 1986 for the transportation of oil by Trans Mountain;

AND WHEREAS the Board, by Order No. TOI-3-85 dated 27 November 1985, and Order No. TOI-4-85 dated 19 December 1985, approved interim tolls, effective 1 December 1985 and 1 January 1986, respectively, for the transportation of oil by Trans Mountain;

AND WHEREAS the Board decided to proceed by written submission for the consideration of the application, the written submission procedure being set out in Order No. AO-1-RH-1-86 dated 15 May 1986;

AND WHEREAS the Board, by Order No. AO-1-TOI-4-85 dated 27 May 1986, amended Order No. TOI-4-85 thereby approving new interim tolls, effective 1 June 1986, for the transportation of oil by Trans Mountain;

AND WHEREAS the Board has considered the application, and the evidence and arguments relative to

the application submitted by Trans Mountain and interested parties;

AND WHEREAS the Board has determined that tolls charged in accordance with the Board's Reasons for Decision dated September 1986 and this Order will be just and reasonable;

IT IS ORDERED THAT:

1. Subject to Paragraphs 2, 3, 4, 5 and 6 Trans Mountain shall, effective 1 November 1986, charge for the transportation of crude petroleum, partially refined synthetic petroleum and refined petroleum the tolls prescribed in Schedule "A" attached hereto.
2. Trans Mountain shall, in its invoices to shippers for the transportation of crude petroleum, refined petroleum and partially refined synthetic petroleum in the month of November 1986, credit each shipper with a share of the total of
 - (a) the difference between the revenues recovered from volumetric tolls for the transportation of crude petroleum, refined petroleum and partially refined synthetic petroleum from 1 January 1986 to 31 October 1986 and the revenues that would have been recovered from the volumetric tolls prescribed in Schedule "A" attached hereto, and
 - (b) interest on each monthly component of the amount referred to in subparagraph (a) for the period from the date of the invoice under which that component was originally collected to the date of the invoice containing the credit required by subparagraph (a), at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans

determined by that shipper's rateable proportion of the total of the products of the volumes of all crude petroleum, refined petroleum and partially refined synthetic petroleum transported in November 1986 and the corresponding distances transported.

3.(1) Trans Mountain shall, from 1 November 1986, charge Petro-Canada Inc. in respect of the transportation of refined petroleum, a toll calculated in accordance with Tariff No. RP2 and equal to the sum of

- (a) a volumetric charge equal to the toll set out in Schedule "A" attached hereto for the transportation and delivery from Edmonton to Kamloops of crude petroleum having a density less than 904 kilograms per cubic metre, and
- (b) a monthly transportation charge of \$57,507, being 1/12 of the forecast annual revenue requirement for 1986, calculated in accordance with the methodology used in determining the volumetric toll, of the facilities and operations installed or utilized by carrier for the transportation of refined petroleum, subject to retrospective adjustment on or before 15 February of the following year to compensate for any difference between actual revenue requirement and forecast revenue requirement.

3.(2) Trans Mountain shall credit Petro-Canada Inc. in the invoice for the month of November 1986 with the difference between the monthly charge set in subparagraph 3.(1)(b) and the monthly charge set by Order TOI-4-85 for the period 1 January 1986 to 31 October 1986, together with interest on each month's component of the difference for the period from the date of the invoice under which that component was originally collected to the date of the invoice required by this subparagraph, at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans.

4. Trans Mountain shall, no later than 1 December 1986, credit each shipper that used the Edson gathering facilities in the period between 1 January 1986 and 31 October 1986 with

- (a) the difference between the Edson gathering charge charged pursuant to Order No. TOI-4-85 as amended and the Edson gathering charge prescribed in Schedule "A" attached hereto, and
- (b) interest on each monthly component of the difference for the period from the date of the invoice under which that component was originally collected to the date of the invoice required by this paragraph, at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans.

5.(1) Trans Mountain shall, from 1 November 1986, charge in respect of partially refined synthetic petroleum transported from Edmonton to the Shell Canada Limited refinery in Burnaby, British Columbia, (the "Shell Special Stream"), a toll calculated in accordance with Tariff No. S2 and equal to the sum of,

- (a) a volumetric charge equal to the toll set out in Schedule "A" attached hereto for the transportation and delivery from Edmonton to Burnaby of crude petroleum having a density less than 904 kilograms per cubic metre, and
- (b) a monthly transportation charge of \$17,693, being 1/12 of the forecast annual revenue requirement for 1986, calculated in accordance with the methodology used in determining the volumetric toll, of the facilities and operations installed or utilized by carrier for the transportation of the Shell Special Stream, subject to retrospective adjustment on or before 15 February of the following year to compensate for any difference between actual revenue requirement and forecast revenue requirement.

5.(2) Trans Mountain shall credit Shell Canada Limited in the invoice for the month of November 1986 with the difference between the monthly charge set in subparagraph 5.(1)(b) and the monthly charge set by Order TOI-4-85 for the period 1 January 1986 to 31 October 1986, together with interest on each month's component of the difference for the period from the date of the invoice under which that component was originally collected to the date of the invoice required by this subparagraph, at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans.

AND IT IS FURTHER ORDERED THAT:

- 6. Trans Mountain shall refund in November 1986 to the applicable shippers the 5 percent surcharge charged to shippers of crude petroleum of density of 877 to 904 kilograms per cubic metre at 15 degrees celsius in the period 1 January 1986 to 31 October 1986, together with interest on each monthly component of the total surcharge collected to the date of the refund required by this Paragraph, at the rate per annum charged Trans Mountain from time to time during the period by its bank for short-term loans.
- 7. Trans Mountain shall, as soon as possible, file with the Board and serve on interested parties tariffs and tolls conforming with the principles

and methodology set out in the Board's Reasons for Decision dated September 1986 and with this Order.

8. Notwithstanding the filing of the tariffs and tolls referred to in Paragraph 7, the same shall remain suspended and be of no effect until 1 November 1986.
9. Trans Mountain shall, no later than 1 December 1986, file with the Board and serve on interested parties tolls to take effect 1 January 1987, based on the tolls approved in the Board's Reasons for Decision dated September 1986 and as shown in Schedule "A" attached hereto, adjusted to reflect a 14 percent rate of return on common equity.
10. Notwithstanding the filing of the tariffs and tolls referred to in Paragraph 9, the same shall remain suspended and be of no effect until 1 January 1987.
11. Those provisions of Trans Mountain's tariffs and tolls, or any portion thereof, that are contrary to any provision of the Act, or to any Order of the Board including this Order, are disallowed effective 1 November 1986.

AND IT IS FURTHER ORDERED THAT:

12. Trans Mountain shall, by the 20th day of each month, file with the Board a statement of actual throughput in the previous month and a current forecast of throughput for the current calendar year, the current month and the succeeding twelve months by origin and destination, showing the throughput projected in each month, each quarter and for the year, together with a breakdown by shipper of the throughput projected for each month.
13. Trans Mountain shall file with the Board and serve on interested parties an application for new tolls as soon as possible after it becomes apparent that the throughput in the then current calendar year, expressed as the sum of the products of the volumes and the corresponding distances to be transported, will vary by 4 percent or more from the throughput upon which the then current tolls are based, expressed on the same basis.
14. In this Order, "interested party" means
 - (a) any party who intervened in the hearing held pursuant to Order No. RH-1-86, as amended,
 - (b) each shipper on Trans Mountain's pipeline,

- (c) the Attorneys General of the provinces of British Columbia, Alberta and Saskatchewan, and
- (d) any person who has notified Trans Mountain and the Board in writing that he wishes to be registered as an interested party in respect of Trans Mountain's tolls and tariffs, and has been accepted by the Board as such.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

**Attachment to Board
Order No. TO-2-86**

Schedule "A"

Tolls

**Crude Petroleum of Density
Greater Than 611 kg/m³
Less Than 904 kg/m³**

From	To	Toll \$/m ³
Edmonton	Kamloops	3.179
Edmonton	Sumas	4.216
Edmonton	Burnaby	4.432
Edson	Kamloops	2.297
Edson	Sumas	3.330
Edson	Burnaby	3.551
Kamloops	Sumas	1.033
Kamloops	Burnaby	1.253

Other Crude Petroleum Charges

Density Greater than 904 kg/m ³ at 15 Degrees Celsius	Above tolls plus 15%
Westridge Loading Charge	\$0.251/m ³
Edson Gathering Charge	\$0.562/m ³

Refined Petroleum Toll

From Edmonton to Kamloops	
Monthly Charge	\$57.507
Volumetric Charge	\$3.179/m ³

Shell Special Stream Toll

From Edmonton to Burnaby	
Monthly Charge	\$17.693
Volumetric Charge	\$4.432/m ³

